

Date: September 20, 2011

To: Thomas J. Bonfield, City Manager
Through: Theodore L. Voorhees, Deputy City Manager
From: Donald M. Long, Solid Waste Director
Christina Tookes, Assistant SW Director – Administrative Services
Subject: Sonoco Recycling Contract Amendment #1

Executive Summary

The contractual agreement between the City of Durham and Sonoco Recycling for the receiving and processing of city-collected recyclable materials is due to expire December 14, 2011. The Solid Waste Management Department has taken the opportunity to negotiate terms that will be beneficial for the City and will allow for services with Sonoco Recycling to continue through October 31, 2013. Currently, the contract is at no cost to the City, but does not offer revenue sharing for the value of the processed materials. Upon execution of this contract amendment, the City will begin to receive revenues and will continue the relationship that has proven most favorable over the last two years. The department feels that the contract amendment places the City closer to industry best practices when it comes to recyclable management and profit sharing statistics.

Recommendation

The department recommends that City Council authorize the City Manager to execute a contract amendment and extension with Sonoco Recycling, effective November 1, 2011, for a period of two (2) years expiring October 31, 2013.

Background

In December 2009, City Council authorized the City Manager to enter into a contractual agreement with Sonoco Recycling to receive, process and market the City's curbside single stream recyclables on a no cost, no profit sharing basis. At the time, there was a two (2) year contractual term set for deliverables of this service. With the contract term pending expiration, the department has been in negotiations with Sonoco Recycling to better enhance services by focusing on waste reduction efforts, revenue sharing and operational efficiency.

In FY 2011, the department delivered to Sonoco's Durham Facility approximately 13,100 tons of single stream recyclables collected curbside and 144 tons of old corrugated cardboard (OCC) for processing and marketing. These materials have proven valuable in the production of Pringle cans nationwide. There have been three (3) e-waste and shredding events held on an annual basis, producing in excess of 288,370 pounds (144.19 tons) of recyclables that Durham citizens disposed of in an environmentally friendly manner. The department is proud of its ability to provide these and other services to the citizens and will continue to strive for innovative ways to benefit the City. This contract amendment will do both.

The department has contracted with a consultant to make recommendations on how the City should proceed in addressing the need for improvement or replacement of its transfer station and to address its overall business practices. This amendment will allow the department ample enough time to analyze and implement the consultant's recommendations. At the conclusion of the consultant's study the Department will likely issue an RFP to enter into a public/private partnership to either construct a new transfer station or renovate the present station.

Issues and Analysis

Sonoco Recycling has been a partner with the City in responsibly managing the processing and marketing of recycling materials collected curbside. Operationally this arrangement works very well for the department. The contract amendment will not change any operational functions at this time. This is an important factor as the department continues to work with a consultant to define solid waste management business best practice and future needs for the City of all waste streams. It is important to note that the consultant group has reviewed the proposed contract amendment and extension, and recommends that the City should be receiving some form of profit sharing given the volume of deliverables being generated. The consultant has advised that this contract is beneficial to the City as a short term arrangement. With that aspect in mind, staff worked to align this amendment with the department's goal of becoming self sufficient as a business unit. Revenues will become a part of the new agreement. The department has negotiated terms that will generate approximately \$393,000 on an annual basis under current market conditions. This figure is based on tonnage levels collected in single stream recyclables at a rate of \$30.00 per ton. Favorable market conditions are defined as a period when market commodity pricing is equal to or greater than \$90.00 per ton Average Market Value (AMV). More information will be provided in the financial impact section below.

Sonoco has agreed to remit revenues to the City in the amount of \$30.00 per ton for single stream recycling, and has further agreed to a market-based per-ton amount, minus a \$30.00 processing fee, for OCC. It is agreed that monthly pricing source will be determined by the Waste & Recycling News publication of commodity pricing index, along with the Official Board Market High Side Southeast index. Both pricing sources are necessary due in large part to the wide variety of recyclables collected curbside (i.e. mixed paper, rigid plastics, glass and cardboard). At any time these information sources become unavailable, the department will consult with the City Manager in determining another data source for pricing.

As mentioned earlier, e-waste and shredding events will continue to be provided to Durham citizens at least three (3) times annually. In the past, these events were provided by Sonoco Recycling at no cost to the City. Under this new revenue sharing agreement, there will be a shared cost associated with holding these events. More information will be provided in the financial impact section below.

Overall, the department believes the timeframe and term of this amendment will provide an immediate impact to the City's bottom-line without compromising any future recommendations that may potentially result from the pending consultant study which is ongoing.

Alternatives

The City could continue with the existing no cost, no profit sharing agreement with Sonoco Recycling. This will have no operational impact; however the opportunity to receive revenues would not be available under the existing terms.

The City could put together a request for proposals to seek like services from other vendors. The department does not recommend this at this time based on the short timeframe remaining on the existing contract; and such action could potentially have an impact on operational efficiencies.

Financial Impact

The financial impact associated with the implementation of this contract amendment is substantial with two options, the Department receives \$30 per ton when the recycling index exceeds \$90 per ton Average Market Value (AMV) and receives \$18 per ton when the index is below \$90 per ton AMV. These are the only two payment options with the Department never having any payment liabilities. Under either scenario, the department sees this arrangement as an advantage for the City considering the existing contract does not provide for any revenue sharing. The City will be able to realize additional unbudgeted revenues during FY 2012. Based on the proposed agreement, the following analysis for the remainder of this fiscal year is provided for consideration.

Potential revenue:	<u>Favorable Market Pricing</u>	<u>Unfavorable Market Pricing</u>
	November 2011- June 2012	November 2011- June 2012
Recyclables	8734 tons @ \$30/ton = \$262,000	8734 tons@\$18/ton=\$157,212

With Old Corrugated Cardboard pricing being based on the current Official Board Market (OBM) High Side Southeast, the revenue scenario can be estimated as follows:

During the month of July 2011, the department delivered 11.73 tons of OCC to Sonoco's Durham Facility. As of August 5, 2011, the average market price for OCC was \$172.50 per ton. Under this amended contract the City would have received \$142.50 per ton for OCC amounting to \$1,672.00 in revenue. It is estimated that annual revenue for OCC would be \$20,000 provided tonnage levels remain content.

Exhibit 1 provides a sample of how calculations of average market values and the type of information that the department would be using to calculate revenues on a monthly basis.

EXHIBIT 1 CALCULATION OF THE AVERAGE MARKET VALUE (AMV) AND REVENUE FOR SINGLE STREAM RECYCLABLES

MATERIALS	% by Weight (1)	Grade Description (2)	Regional Average Price (Aug 5, 2011)	Market Value (\$/ton)	AMV (\$/ton) (3)
Newspaper	30.08%	PS 8 - Special de-ink quality news	147.5	\$147.50	\$44.37
OCC	16.26%	PS 11 - Corrugated cardboard	172.5	\$172.50	\$28.05
Mixed Paper	9.50%	PS 1 - Soft mixed paper	145.0	\$145.00	\$13.78
PET	4.25%	PlasticsPET (baled, cents/lb picked up)	31.0	\$620.00	\$26.35
HDPE Natural	0.90%	PlasticsNatural HDPE (baled, cents/lb picked up)	35.5	\$710.00	\$6.39

HDPE Color	1.79%	Plastics Colored HDPE (baled, cents/lb picked up)	17.8	\$356.00	\$6.37
Aluminum Cans	1.15%	Metals Aluminum Cans (sorted, baled, cents/lb del.)	90.5	\$1,810.00	\$20.82
Steel	1.90%	Metals Steel Cans (sorted, densified, cents/lb del.)	117.5	\$117.50	\$2.23
Mixed cullet	23.85%	Glass 3 Mix (\$/ton del.)	5.0	\$5.00	\$1.19
Contamination	10.32%	NA	NA	NA	NA
TOTAL		100.00%			\$149.54
(1) Based on Sonoco Test Sample from September 2010.					
(2) Grade descriptions and Regional Average Prices are from SecondaryFiberPricing.com and SecondaryMaterialsPricing.com. Regional Average Prices are for the Southeast USA.					
(3) AMV is the Average Market Value of a ton of the City's Single Stream Recyclables.					

For example:

$$\$149.54 - \$50.00 = \$99.54 * 30\% = \$30 \text{ per ton}$$

The current OBM average is \$149.54 per ton. It is estimated that Sonoco will use \$50.00 per ton to cover their costs. Sonoco's cost factors are \$10 per ton for hauling; \$20 per ton for bailing; and \$20 per ton for administrative and other operational costs. The City will receive 30% or \$30.00 per ton in revenue shares with the remaining \$99.54 Average Market Value.

Should the OBM average market value fall below \$90.00 per ton, the City will receive \$18.00 per ton in revenue shares. As trends show that material commodity pricing has shown a steady increase of the last few years. The market is projected to remain favorable for the next 12 months.

The department believes a \$30 revenue sharing is the best option with a short term contract. After the consulting firm has made recommendations regarding the SW Disposal plan, the department will seek a contract with better revenue sharing and longer terms. This contract may or may not be with the current vendor.

The City will incur a marginal cost to continue holding the e-waste and shredding events, not to exceed \$4,000 per combined event for an annual cost of up to \$12,000. Contractually these events are not required, and while optional the department is in the process of determining if these events can be conducted in-house at a lower per event cost. The department still recommends the amendment based on net revenue potential in the range of \$140,000 to \$250,000.

SDBE Summary

This is a contract extension, so no additional compliance review with the Ordinance to Promote Equal Opportunity in City Contracting was conducted.

Attachments

Contract Amendment #1